

**FRUIT HEIGHTS CITY
FINANCIAL STATEMENTS AND
SUPPLEMENTARY DATA**

JUNE 30, 2005

FRUIT HEIGHTS CITY

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Independent Auditor's Report | 1 - 2 |
| Management's Discussion and Analysis | 3 - 7 |
| Basic Financial Statements | |
| Government-wide Financial Statements | |
| Statement of Net Assets | 8 |
| Statement of Activities | 9 |
| Governmental Funds Statements | |
| Balance Sheet | 10 |
| Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets | 11 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances | 12 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 13 |
| Proprietary Funds Statements | |
| Statement of Net Assets | 14 |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets | 15 |
| Statement of Cash Flows | 16 - 17 |
| Notes to Financial Statements | 18 - 31 |
| Required Supplemental Information | |
| Schedule of Revenues, Expenditures, and Changes to Fund Balances - Budget and Actual - General Fund | 32 - 34 |
| Auditor's Reports and Auditor's Management Letter | |
| Independent Auditor's Report on State Legal Compliance | 35 - 36 |
| Schedule of Findings and Questioned Costs-State Legal Compliance | 37 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 38 - 39 |
| Status of Fiscal Year 2004 Findings and Recommendations | 40 |

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS

Tarina Chase, CPA

Ann Singleton, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
Fruit Heights City
Fruit Heights, UT

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Fruit Heights City, Utah as of and for the year ended June 30, 2005, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 26, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 and budgetary comparison information on pages 32 through 34 are not a required part of the financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Davis, Chase + Associates

October 26, 2005

FRUIT HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2005

INTRODUCTION

The following is a discussion and analysis of Fruit Heights City's financial performance and activities for the fiscal year ending June 30, 2005.

HIGHLIGHTS

The City finished the East Bench Pressure Irrigation System providing low cost irrigation water to 55 property owners. Through the efforts of volunteers and the financial contribution of individuals and the City, a new playground called Castle Heights was constructed at Nicholls Park. An old crumbly sewer line was replaced with a new sewer line on Oakmont Circle. At the same time the road was rebuilt and some curb and gutter was replaced. A new storm drain line was built from Daniels Drive to Mountain Road. The City continued its ongoing project of changing City manual water meters to radio signal meters making meter reading faster, more efficient and more accurate.

The assets of Fruit Heights City exceeded its liabilities at the end of the current fiscal year by \$9,110,586 (net assets). Of this amount, \$1,317,600 (unrestricted net assets) is available to meet ongoing obligations to citizens and creditors.

Net assets increased by \$2,890,333. Of this amount, 97.7% is a result of business-type activities.

The City's governmental funds reported combined ending fund balance of \$365,864, a decrease of \$51,052 compared to the prior years' ending amount. Of the combined total fund balance, \$175,162 is available for spending at the discretion of the City (unreserved and undesignated fund balance).

The unreserved and undesignated fund balance of the General Fund at June 30, 2005, totaling \$175,162, is 13% of the General Fund total revenues for the year and 100% of governmental unreserved and undesignated fund balance. The General Fund, also has \$160,294 of fund balance reserved for specific purposes that will be carried over into the following fiscal year. The Capital Projects Fund has \$30,408 of fund balance reserved for specific purposes that will be carried over into the following year.

During the year, total debt for Fruit Heights City decreased by approximately \$16,989.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the City's Basic Financial Statements. The Basic Financial Statements includes three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Management's Discussion and Analysis

The government-wide financial statements are comprised of the Statement of Net Assets, and the Statement of Activities. These two statements provide a broad overview of the City's finances. The Statement of Net Assets shows the overall net assets of the City. Increases and decreases in net assets are one indicator of the City's overall financial condition. The Statement of Activities helps to identify functions of the City that are principally supported by taxes and other general revenues (governmental activities) along with other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Fruit Heights City's business type activities are sewer, water, solid waste and storm water.

The fund financial statements provide detailed information about individual major funds and not the City as a whole. A fund is a group of related accounts that the City uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the City's funds are divided into two types. The two types are Governmental Funds and Proprietary Funds.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Fruit Heights City has two Governmental Funds. The General Fund is the chief operating fund of the City. All of the City's activities are reported in the General Fund unless there is a compelling reason to report an activity in some other fund type. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fruit Heights City has four Proprietary Funds. The Enterprise Funds may be used to report any activity for which a fee is charged to external users for goods or services. The Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Fruit Heights City has four Enterprise Funds, the water fund, the sewer fund, the solid waste fund and the storm water fund. An internal service fund is presented in a separate column in the Proprietary Fund financial statements. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

There are several differences between Government-Wide and Fund Statements. Capital assets and long-term debt are included on the government-wide statements, but are not reported on the governmental fund statements. Capital outlays result in capital assets on the government-wide statements, but are expenditures on the governmental fund statements.

Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

| | Government Activities | | Business-type Activities | | Total | |
|--|-----------------------|-----------------|--------------------------|-----------------|-----------------|-----------------|
| | June 30 2005 | June 30 2004 | June 30 2005 | June 30 2004 | June 30 2005 | June 30 2004 |
| Current and other assets | \$1,083,261 | \$ 809,668 | \$1,486,034 | \$1,360,799 | \$2,569,295 | \$2,170,467 |
| Capital assets | 1,995,481 | 1,712,354 | 5,502,338 | 3,251,771 | 7,497,819 | 4,964,125 |
| Total assets | 3,078,742 | 2,522,022 | 6,988,372 | 4,612,570 | 10,067,114 | 7,134,592 |
| Long-term liabilities | | | | | | |
| outstanding | 64,117 | 61,002 | 285,000 | 303,433 | 349,117 | 364,435 |
| Other liabilities | 499,121 | 397,438 | 108,290 | 152,466 | 607,411 | 549,904 |
| Total liabilities | 563,238 | 458,440 | 393,290 | 455,899 | 956,528 | 914,339 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 1,995,480 | 1,712,354 | 5,183,905 | 2,916,349 | 7,179,385 | 4,628,703 |
| Restricted | 190,702 | 257,929 | 422,899 | 190,557 | 613,601 | 448,486 |
| Unrestricted | 329,322 | 93,299 | 988,278 | 1,049,765 | 1,317,600 | 1,143,064 |
| Total net assets | \$2,515,504 | \$2,063,582 | \$6,595,082 | \$4,156,671 | \$9,110,586 | \$6,220,253 |

The largest component of the City's net assets, 78.8%, reflects investments in capital assets (land, buildings, equipment, and infrastructure) less all outstanding debt that was issued to buy or build those assets. As capital assets, these resources are not available for future spending, nor can they all be readily liquidated to pay off the related liabilities.

Restricted net assets comprise 6.7% of total net assets and are subject to external restrictions on how they may be used. The remaining 14.5% of net assets is unrestricted and may be used at the City's discretion to meet its ongoing obligations to citizens and creditors.

Management's Discussion and Analysis

Governmental Activities and Business Type Activities

Changes in Net Assets

| | Government Activities | | Business-type Activities | | Total | |
|--|-----------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
| | June 30 2005 | June 30 2004 | June 30 2005 | June 30 2004 | June 30 2005 | June 30 2004 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 409,774 | \$ 325,615 | \$1,522,939 | \$1,048,104 | \$1,932,713 | \$1,373,719 |
| Operating grants and contributions | 151,475 | 175,632 | - | - | 151,475 | 175,632 |
| Capital grants and contributions | 85,691 | - | 2,297,523 | - | 2,383,214 | - |
| General revenues: | | | | | | |
| Property taxes | 307,659 | 298,882 | - | - | 307,659 | 298,882 |
| Other taxes | 443,679 | 453,038 | - | - | 443,679 | 453,038 |
| Grants and contributions not restricted to specific programs | | | | | | |
| Other | 18,878 | 11,229 | 23,819 | 14,108 | 42,697 | 25,337 |
| Total revenues | <u>1,417,156</u> | <u>1,264,396</u> | <u>3,844,281</u> | <u>1,062,212</u> | <u>5,261,437</u> | <u>2,326,608</u> |
| Expenses: | | | | | | |
| General government | 571,751 | 494,142 | - | - | 571,751 | 494,142 |
| Public safety | 324,580 | 283,578 | - | - | 324,580 | 283,578 |
| Highways and public improvements | 310,982 | 95,058 | - | - | 310,982 | 95,058 |
| Parks and recreation | 144,390 | 164,356 | - | - | 144,390 | 164,356 |
| Solid waste | - | - | 262,288 | 260,545 | 262,288 | 260,545 |
| Storm sewer | - | - | 56,425 | 51,907 | 56,425 | 51,907 |
| Water | - | - | 367,147 | 272,356 | 367,147 | 272,356 |
| Sewer | - | - | 333,541 | 338,795 | 333,541 | 338,795 |
| Total expenses | <u>1,351,703</u> | <u>1,037,134</u> | <u>1,019,401</u> | <u>923,603</u> | <u>2,371,104</u> | <u>1,960,737</u> |
| Increase in net assets | 65,453 | 227,262 | 2,824,880 | 138,609 | 2,890,333 | 365,871 |
| Net assets-beginning | <u>2,450,051</u> | <u>2,222,789</u> | <u>3,770,202</u> | <u>3,631,593</u> | <u>6,220,253</u> | <u>5,854,382</u> |
| Net assets-ending | <u>\$2,515,504</u> | <u>\$2,450,051</u> | <u>\$6,595,082</u> | <u>\$3,770,202</u> | <u>\$9,110,586</u> | <u>\$6,220,253</u> |

Governmental Activities

The activities in the governmental funds resulted in an increase in net assets of \$65,453 for the year.

Business-Type Activities

The business-type activities increased net assets by \$2,824,880. The sewer, water and storm water enterprise funds are generating sufficient revenue to cover operating costs. The solid waste enterprise fund did not generate sufficient revenue to cover operating costs. The majority of the increase was a result of recording capital contributions from subdivision developers for the estimated cost of infrastructure put in by the developers and then turned over to the City.

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Fund Balances

The fund balance in the General Fund was decreased by \$39,730. The fund balance in the Capital Projects Fund decreased by \$11,322. The net assets in the Enterprise Funds increased by \$2,813,639.

Capital Assets

Fruit Heights City added \$142,696 in new capital assets in governmental activities during the fiscal year. The following assets were acquired or constructed: Castle Heights playground \$111,505; City Hall basement improvements \$6,932; Public Works Facility improvements \$603; Nicholls Park improvements \$14,943; Portable generator and trailer \$8,713.

Long-Term Debt

The City currently owes \$300,000 for a municipal revenue obligation in the form of a promissory note. The proceeds from the note were used to finance the City's construction of a secondary water system for a portion of the City. \$15,000 of the debt will be paid in the current year with \$285,000 remaining in long-term debt. Special assessment collections will be used to pay this obligation.

General Fund Budgets

Fruit Heights City prepares its budget according to state statutes. The General Fund Budget was adjusted during the year.

Actual General Fund revenues were \$112,444 above the original budget and \$37,444 above the final adjusted budget. Actual General Fund expenses before transfers were \$25,898 below the original budget and \$119,772 below the final adjusted budget.

ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of Fruit Heights City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or any other matters related to the City's finances should be addressed to Fruit Heights City, 910 South Mountain Road, Fruit Heights City, Utah 84037.

FRUIT HEIGHTS CITY
STATEMENT OF NET ASSETS
JUNE 30, 2005

| | Primary Government | | |
|---|---------------------|---------------------|---------------------|
| | Governmental | Business-type | Total |
| | Activities | Activities | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 421,750 | \$ 892,607 | \$ 1,314,357 |
| Restricted cash | 190,702 | 260,970 | 451,672 |
| Restricted cash - subdivider guarantee deposits | 58,213 | - | 58,213 |
| Accounts receivable | 9,075 | 124,000 | 133,075 |
| Special assessments receivable | - | 161,929 | 161,929 |
| Due from other governmental units | 414,762 | - | 414,762 |
| Internal balances | (11,241) | 11,241 | - |
| Prepaid expenses | - | 35,287 | 35,287 |
| Capital assets (net of accumulated depreciation): | | | |
| Land | 862,225 | 98,783 | 961,008 |
| Buildings | 663,728 | - | 663,728 |
| Improvements | 236,046 | 5,347,965 | 5,584,011 |
| Machinery and equipment | 232,494 | 39,475 | 271,969 |
| Water rights | 988 | 16,115 | 17,103 |
| TOTAL ASSETS | 3,078,742 | 6,988,372 | 10,067,114 |
| LIABILITIES | | | |
| Accounts payable | 75,067 | 44,573 | 119,640 |
| Deposits | 59,826 | 30,284 | 90,110 |
| Subdivider guarantee deposits | 58,213 | - | 58,213 |
| Deferred revenue | 306,015 | - | 306,015 |
| Non-current liabilities: | | | |
| Due within one year | - | 33,433 | 33,433 |
| Due in more than one year | 64,117 | 285,000 | 349,117 |
| TOTAL LIABILITIES | 563,238 | 393,290 | 956,528 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 1,995,480 | 5,183,905 | 7,179,385 |
| Restricted for: | | | |
| Capital projects | 12,509 | - | 12,509 |
| Class "C" roads | 154,036 | - | 154,036 |
| Parks impact fees | 17,899 | - | 17,899 |
| Emergency preparedness | 6,258 | - | 6,258 |
| Impact fees | - | 140,887 | 140,887 |
| Special assessment | - | 282,012 | 282,012 |
| Unrestricted | 329,322 | 988,278 | 1,317,600 |
| TOTAL NET ASSETS | \$ 2,515,504 | \$ 6,595,082 | \$ 9,110,586 |

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

Net (Expense) Revenue and Changes in Net Assets

| | Program Revenues | | | | Primary Government | | |
|--------------------------------------|------------------|----------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|--------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| FUNCTIONS/PROGRAMS | | | | | | | |
| PRIMARY GOVERNMENT: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 571,751 | \$ 291,282 | \$ 25,208 | \$ - | \$ (255,261) | \$ - | \$ (255,261) |
| Public safety | 324,580 | 73,227 | 2,136 | - | (249,217) | - | (249,217) |
| Highways and public improvements | 310,982 | - | 124,131 | - | (186,851) | - | (186,851) |
| Parks and recreation | 144,390 | 45,265 | - | 85,691 | (13,434) | - | (13,434) |
| Total governmental activities | 1,351,703 | 409,774 | 151,475 | 85,691 | (704,763) | - | (704,763) |
| Business-type activities: | | | | | | | |
| Water | 367,147 | 723,610 | - | 776,277 | - | 1,132,740 | 1,132,740 |
| Sewer | 333,541 | 424,933 | - | 996,240 | - | 1,087,632 | 1,087,632 |
| Solid waste | 262,288 | 256,110 | - | - | - | (6,178) | (6,178) |
| Storm water | 56,425 | 118,286 | - | 525,006 | - | 586,867 | 586,867 |
| Total business-type activities | 1,019,401 | 1,522,939 | - | 2,297,523 | - | 2,801,061 | 2,801,061 |
| Total primary government | \$ 2,371,104 | \$ 1,932,713 | \$ 151,475 | \$ 2,383,214 | (704,763) | 2,801,061 | 2,096,298 |
| General revenues: | | | | | | | |
| Property taxes | | | | | 307,659 | - | 307,659 |
| Sales taxes | | | | | 379,267 | - | 379,267 |
| Fees-in-lieu of taxes | | | | | 64,412 | - | 64,412 |
| Miscellaneous | | | | | 17,758 | 23,819 | 41,577 |
| Gain on sale of assets | | | | | 1,120 | - | 1,120 |
| Total general revenues and transfers | | | | | 770,216 | 23,819 | 794,035 |
| Change in net assets | | | | | 65,453 | 2,824,880 | 2,890,333 |
| Net assets - beginning | | | | | 2,450,051 | 3,770,202 | 6,220,253 |
| Net assets - ending | | | | | \$ 2,515,504 | \$ 6,595,082 | \$ 9,110,586 |

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|---|---|
| ASSETS | | | |
| Cash and cash equivalents | \$ 192,233 | \$ - | \$ 192,233 |
| Restricted cash | 160,294 | 30,408 | 190,702 |
| Restricted cash - subdivider guarantee deposits | 58,213 | - | 58,213 |
| Accounts receivable | 9,075 | - | 9,075 |
| Due from other governmental units | 414,762 | - | 414,762 |
| Total assets | <u>\$ 834,577</u> | <u>\$ 30,408</u> | <u>\$ 864,985</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 75,067 | \$ - | \$ 75,067 |
| Customer deposits | 59,826 | - | 59,826 |
| Subdivider guarantee deposits | 58,213 | - | 58,213 |
| Deferred revenues | 306,015 | - | 306,015 |
| Total liabilities | <u>499,121</u> | <u>-</u> | <u>499,121</u> |
| Fund balances: | | | |
| Reserved for: | | | |
| Class "C" Roads | 154,036 | - | 154,036 |
| Park impact fees | - | 17,899 | 17,899 |
| Emergency preparedness | 6,258 | - | 6,258 |
| Capital projects | - | 12,509 | 12,509 |
| Unreserved, reported in: | | | |
| General fund | 175,162 | - | 175,162 |
| Total fund balances | <u>335,456</u> | <u>30,408</u> | <u>365,864</u> |
| Total liabilities and fund balances | <u>\$ 834,577</u> | <u>\$ 30,408</u> | <u>\$ 864,985</u> |

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances - governmental funds: \$ 365,864

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported
in the funds.

| | | |
|--------------------------|------------------|-----------|
| Land | \$ 862,225 | |
| Water rights | 988 | |
| Buildings | 884,267 | |
| Improvements | 328,377 | |
| Machinery and equipment | 87,273 | |
| Accumulated depreciation | <u>(348,518)</u> | |
| | | 1,814,612 |

Internal service funds are used by management to charge the
costs of the vehicle and equipment fund to individual funds.
The assets and liabilities of the Internal Service Fund are
included in governmental activities in the Statement of
Net Assets.

399,145

Long-term liabilities, including compensated absences are not
due and payable in the current period and therefore are not
reported in the governmental funds, but they are reported
in the Statement of Net Assets

| | | |
|----------------------|-----------------|--|
| Compensated absences | <u>(64,117)</u> | |
|----------------------|-----------------|--|

| | |
|---------------------------------------|---------------------|
| Net assets of governmental activities | <u>\$ 2,515,504</u> |
|---------------------------------------|---------------------|

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|---|---|
| REVENUES | | | |
| Taxes | | | |
| Property taxes | \$ 307,659 | \$ - | \$ 307,659 |
| Sales taxes | 379,267 | - | 379,267 |
| Fees-in-lieu of taxes | 64,412 | - | 64,412 |
| Licenses and permits | 141,650 | - | 141,650 |
| Intergovernmental | 151,474 | - | 151,474 |
| Charges for services | 180,073 | - | 180,073 |
| Fines and forfeitures | 73,227 | - | 73,227 |
| Miscellaneous revenue | 18,607 | 100,787 | 119,394 |
| Total revenues | <u>1,316,369</u> | <u>100,787</u> | <u>1,417,156</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 567,205 | - | 567,205 |
| Public safety | 324,580 | - | 324,580 |
| Highways and public improvements | 310,982 | - | 310,982 |
| Parks and recreation | 146,400 | - | 146,400 |
| Capital outlay: | | | |
| Capital projects | - | 119,041 | 119,041 |
| Total expenditures | <u>1,349,167</u> | <u>119,041</u> | <u>1,468,208</u> |
| Excess (deficiency) of revenues over expenditures | <u>(32,798)</u> | <u>(18,254)</u> | <u>(51,052)</u> |
| Other financing sources (uses) | | | |
| Transfers in | - | 6,932 | 6,932 |
| Transfers out | (6,932) | - | (6,932) |
| Total other financing sources and uses | <u>(6,932)</u> | <u>6,932</u> | <u>-</u> |
| Net change in fund balances | (39,730) | (11,322) | (51,052) |
| Fund balances - beginning of year | 375,186 | 41,730 | 416,916 |
| Fund balances - end of year | <u>\$ 335,456</u> | <u>\$ 30,408</u> | <u>\$ 365,864</u> |

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Amounts reported for governmental activities in the Statement of
Activities are different because:

| | | |
|---|----|----------|
| Net changes in fund balances - total governmental funds | \$ | (51,052) |
|---|----|----------|

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities the cost of those
assets is allocated over their estimated useful lives and
reported as depreciation expense. This is the amount by
which capital outlays exceeded depreciation in the current
period.

| | | | |
|-------------------------|----|----------|---------|
| Machinery and equipment | \$ | 142,696 | |
| Depreciation expense | | (40,438) | |
| | | | 102,258 |

Internal service funds are used by management to charge the
costs of the vehicle and equipment fund to individual funds.
The net revenue of certain activities of the Internal Service
Fund is reported with governmental activities.

| | | |
|--|--|--------|
| | | 12,676 |
|--|--|--------|

Some governmental fund expenditures reflect payments related
to prior periods and are not reported as expenditures
in the government-wide Statement of Activities

| | | |
|--|--|-------|
| | | 1,571 |
|--|--|-------|

| | | |
|---|----|--------|
| Change in net assets of governmental activities | \$ | 65,453 |
|---|----|--------|

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

| | Business-Type Activities - Enterprise Funds | | | | | Governmental-Type Activities Internal Service Fund |
|--|---|--------------|----------------|----------------|--------------|---|
| | Water | Sewer | Solid Waste | Storm Water | Total | |
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 353,808 | \$ 283,590 | \$ 81,156 | \$ 174,053 | \$ 892,607 | \$ 229,516 |
| Accounts receivable | 42,461 | 42,874 | 29,202 | 9,463 | 124,000 | - |
| Special assessments receivable | 161,929 | - | - | - | 161,929 | - |
| Prepaid water | 35,287 | - | - | - | 35,287 | - |
| Total current assets | 593,485 | 326,464 | 110,358 | 183,516 | 1,213,823 | 229,516 |
| Noncurrent assets: | | | | | | |
| Restricted cash and cash equivalents | 202,087 | - | - | 58,883 | 260,970 | - |
| Fixed assets | 4,154,981 | 1,867,695 | - | 541,547 | 6,564,223 | 501,051 |
| Less: Accumulated depreciation | (745,349) | (305,981) | - | (10,555) | (1,061,885) | (320,180) |
| Total noncurrent assets | 3,611,719 | 1,561,714 | - | 589,875 | 5,763,308 | 180,871 |
| Total assets | 4,205,204 | 1,888,178 | 110,358 | 773,391 | 6,977,131 | 410,387 |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | - | 24,318 | 20,255 | - | 44,573 | - |
| Revenue bonds payable | 15,000 | - | - | - | 15,000 | - |
| Note payable - Land | 18,433 | - | - | - | 18,433 | - |
| Deposits | 1,400 | 4,000 | - | 24,884 | 30,284 | - |
| Total current liabilities | 34,833 | 28,318 | 20,255 | 24,884 | 108,290 | - |
| Noncurrent liabilities: | | | | | | |
| Revenue bonds payable | 285,000 | - | - | - | 285,000 | - |
| Total liabilities | 319,833 | 28,318 | 20,255 | 24,884 | 393,290 | - |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | 3,091,199 | 1,561,714 | - | 530,992 | 5,183,905 | 180,871 |
| Restricted - Special assessment | 282,012 | - | - | - | 282,012 | - |
| Restricted - Impact fees | 82,004 | - | - | 58,883 | 140,887 | - |
| Unrestricted | 430,156 | 298,146 | 90,103 | 158,632 | 977,037 | 229,516 |
| Total net assets | \$ 3,885,371 | \$ 1,859,860 | \$ 90,103 | \$ 748,507 | 6,583,841 | \$ 410,387 |
| Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds | | | | | 11,241 | |
| Net assets of business-type activities | | | | | \$ 6,595,082 | |

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

| | Business-Type Activities - Enterprise Funds | | | | | Governmental-Type Activities Internal Service Fund |
|---|--|--------------|------------------------|------------------------|--------------|---|
| | Water | Sewer | Solid Waste | Storm Water | Total | |
| <u>OPERATING REVENUE</u> | | | | | | |
| Charges for service | \$ 371,478 | \$ 398,521 | \$ 256,110 | \$ 81,396 | \$ 1,107,505 | \$ 98,200 |
| Special assessments | 279,080 | - | - | - | 279,080 | - |
| Connection fees | 2,805 | 16,500 | - | - | 19,305 | - |
| Impact fees | 60,687 | - | - | 36,890 | 97,577 | - |
| Other | 9,560 | 9,912 | - | - | 19,472 | - |
| Total operating revenue | 723,610 | 424,933 | 256,110 | 118,286 | 1,522,939 | 98,200 |
| <u>OPERATING EXPENSES</u> | | | | | | |
| Operation and maintenance | 32,381 | 16,318 | 7,980 | 15,670 | 72,349 | 38,067 |
| Sewage treatment | - | 189,682 | - | - | 189,682 | - |
| Source of supply | 113,373 | - | - | - | 113,373 | - |
| Power and pumping | 14,545 | - | - | - | 14,545 | - |
| Depreciation | 81,924 | 38,065 | - | 10,555 | 130,544 | 36,018 |
| General expense | 25,000 | 25,000 | 25,000 | 25,000 | 100,000 | - |
| Salaries | 48,335 | 39,360 | - | - | 87,695 | - |
| Employee benefits | 24,065 | 19,916 | - | - | 43,981 | - |
| Waste collection | - | - | 58,289 | - | 58,289 | - |
| Waste disposal | - | - | 171,019 | - | 171,019 | - |
| Vehicle operation | 32,406 | 6,874 | - | 6,874 | 46,154 | - |
| Total operating expenses | 372,029 | 335,215 | 262,288 | 58,099 | 1,027,631 | 74,085 |
| Operating income (loss) | 351,581 | 89,718 | (6,178) | 60,187 | 495,308 | 24,115 |
| <u>NONOPERATING REVENUE (EXPENSES)</u> | | | | | | |
| Loss on sale of capital assets | - | - | - | - | - | (3,036) |
| Interest revenue | 11,291 | 6,477 | 1,926 | 4,125 | 23,819 | 2,838 |
| Interest expense | (3,011) | - | - | - | (3,011) | - |
| Total nonoperating revenue | 8,280 | 6,477 | 1,926 | 4,125 | 20,808 | (198) |
| Income (loss) before contributions | 359,861 | 96,195 | (4,252) | 64,312 | 516,116 | 23,917 |
| Capital contributions | 776,277 | 996,240 | - | 525,006 | 2,297,523 | - |
| Changes in net assets | 1,136,138 | 1,092,435 | (4,252) | 589,318 | 2,813,639 | 23,917 |
| Net assets - beginning | 2,749,233 | 767,425 | 94,355 | 159,189 | | 386,469 |
| Net assets - ending | \$ 3,885,371 | \$ 1,859,860 | \$ 90,103 | \$ 748,507 | | \$ 410,386 |

Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds

11,241

Change in net assets of business-type activities

\$ 2,824,880

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

| | Water | Sewer | Solid Waste | Storm Water | Total | Business-Type Activities Internal Service Fund |
|--|------------|------------|-------------|-------------|--------------|---|
| Cash Flows From Operating Activities | | | | | | |
| Receipts from customers | \$ 497,483 | \$ 402,327 | \$ 255,711 | \$ 106,330 | \$ 1,261,851 | \$ - |
| Payments to employees | (48,335) | (39,360) | - | - | (87,695) | (38,067) |
| Payments to suppliers | (265,983) | (217,500) | (237,389) | (15,670) | (736,542) | 98,200 |
| Payments for interfund services used | (57,406) | (31,874) | (25,000) | (31,874) | (146,154) | - |
| Receipts for impact fees | 60,687 | - | - | 36,890 | 97,577 | - |
| Receipts for connection fees | 2,805 | 16,500 | - | - | 19,305 | - |
| Net cash provided (used) by operating activities | 189,251 | 130,093 | (6,678) | 95,676 | 408,342 | 60,133 |
| Cash Flows From Noncapital Financing Activities | | | | | | |
| Transfers from other funds | - | - | - | - | - | - |
| Net cash provided (used) by noncapital financing activities | - | - | - | - | - | - |
| Cash Flows From Capital and Related Financing Activities | | | | | | |
| Contributed revenues | 1,210 | - | - | - | 1,210 | - |
| Principal paid on capital debt | (16,989) | - | - | - | (16,989) | - |
| Interest paid on capital debt | (3,011) | - | - | - | (3,011) | - |
| Purchases of capital assets | (138,273) | (81,261) | - | (16,541) | (236,075) | (68,648) |
| Net cash provided (used) by capital and related financing activities | (157,063) | (81,261) | - | (16,541) | (254,865) | (68,648) |
| Cash Flows From Investing Activities | | | | | | |
| Interest and dividends received | 11,291 | 6,477 | 1,926 | 4,125 | 23,819 | 2,838 |
| Net cash provided (used) by investing activities | 11,291 | 6,477 | 1,926 | 4,125 | 23,819 | 2,838 |
| Net increase (decrease) in cash and cash equivalents | 43,479 | 55,309 | (4,752) | 83,260 | 177,296 | (5,677) |
| Cash and cash equivalents, July 1 | 512,416 | 228,281 | 85,908 | 149,676 | 976,281 | 235,193 |
| Cash and cash equivalents, June 30 | \$ 555,895 | \$ 283,590 | \$ 81,156 | \$ 232,936 | \$ 1,153,577 | \$ 229,516 |

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

| | Water | Sewer | Solid Waste | Storm Water | Total | Business-Type Activities Internal Service Fund |
|--|-------------------|-------------------|-------------------|-------------------|---------------------|--|
| Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities: | | | | | | |
| Operating income (loss) | \$ 351,581 | \$ 89,718 | \$ (6,178) | \$ 60,187 | \$ 495,308 | \$ 24,115 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | | |
| Depreciation expense | 81,924 | 38,065 | - | 10,555 | 130,544 | 36,018 |
| (Increase) decrease in prepaid expense | (2,540) | - | - | - | (2,540) | - |
| (Increase) decrease in accounts receivable | (162,895) | (6,106) | (399) | 50 | (169,350) | - |
| Increase (decrease) in accounts payable | (69,085) | 8,416 | (101) | - | (60,770) | - |
| Increase (decrease) in retainage payable | (9,994) | - | - | - | (9,994) | - |
| Increase (decrease) in deposits | 260 | - | - | 24,884 | 25,144 | - |
| Total adjustments | (162,330) | 40,375 | (500) | 35,489 | (86,966) | 36,018 |
| Net cash provided (used) by operating activities | <u>\$ 189,251</u> | <u>\$ 130,093</u> | <u>\$ (6,678)</u> | <u>\$ 95,676</u> | <u>\$ 408,342</u> | <u>\$ 60,133</u> |
| Noncash Investing, Capital and Financing Activities: | | | | | | |
| Contributed capital assets from developers | <u>\$ 775,067</u> | <u>\$ 996,240</u> | <u>\$ -</u> | <u>\$ 525,006</u> | <u>\$ 2,296,313</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these statements.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Fruit Heights City, Utah conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The City has adopted the provisions of the Governmental Accounting Standards Board (GASB). Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

The following is a summary of the more significant policies and is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

A. Reporting Entity

Fruit Heights City was incorporated in the State of Utah. The City operates under a Council/Mayor form of government and provides the following services as authorized by its charter: Public safety, public utilities, highways and streets, social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The criteria set forth by generally accepted accounting principles (GAAP) was used to determine which entities to include in this report. GASB Concepts Statement-1 (Objectives of Financial Reporting) concludes that the basic foundation for governmental financial reporting is accountability. The Concepts Statement asserts that accountability requires governments to answer to the citizenry - to justify the raising of public resources and the purposes for which they are used. In turn, the concept of accountability becomes the basis for defining the financial reporting entity. Under GASB-14 (The Financial Reporting Entity) the financial reporting entity consists of the following:

1. The primary government
2. Organizations for which the primary government is financially accountable
3. Other organizations that, because of the nature and significance of their relationship with the primary government, exclusion from the reporting entity would render the financial statements misleading or incomplete.

Blended component units, although legally separate entities, are in substance part of the government's operations. They are reported as part of the primary government and blended with the appropriate funds. The City has the following component units.

Fruit Heights City Municipal Building Authority. The Fruit Heights City Municipal Building Authority's governing board is appointed by the government's governing body. The City created a building authority in the form of a non-profit corporation under the Utah Municipal Building Authority Act for the purpose of acquiring, improving, or extending one or more projects, as defined in the Act, and to finance their costs on behalf of the City in accordance with the procedures and subject to limitations of the Act. There was no activity in the current year.

B. Government-wide and Fund Financial Statements

The City's basic financial statements consist of both government-wide statements and fund statements. The government-wide statements focus on the City as a whole, while the fund statements focus on individual funds.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

Government-wide Financial Statements

The government-wide statements present information on all non-fiduciary activities of the primary government. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation. The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The City does not allocate general government (indirect) expenses to other functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Statements are provided for *governmental funds* and for *proprietary funds*. For governmental and proprietary funds, the emphasis is on *major funds*, with each displayed in a separate column.

The City reports the following major governmental funds:

General Fund - This fund is the principal operating fund of the City. It is used to account for all financial resources not required to be accounted for in another fund.

Capital Projects Fund - This fund accounts for financial resources to be used for the construction of major capital projects.

The City reports the following major proprietary funds:

Sewer Fund - The sewer fund is used to account for operations of the sewer system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

Water Fund - The water fund is used to account for operations of the water system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Solid Waste Fund - The solid waste fund is used to account for operations of the solid waste system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Storm Water Fund - The storm water fund is used to account for operations of the storm water system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Additionally, the City reports the following fund type:

Internal Service Fund - The internal service fund is used to account for the operating costs of vehicles and equipment charged to the other departments or funds. The internal service fund primarily benefits the governmental funds and is included as part of governmental-type activities in the government-wide financial statements. The net profit or loss on the internal service fund operations is allocated to the functions that benefited from the goods or services provided on the basis of their proportionate benefit. This technique is commonly known as the look-back approach to internal service fund consolidations on the government-wide financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Taxes and fees are recognized in the year in which the related sales or other activity has occurred. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The governmental fund financial statements are prepared and reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Expenditures are generally recorded when the related liability is incurred.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are charges to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

The City has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. Accordingly, the City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Consequently, the City does not apply FASB pronouncements issued after November 30, 1989.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Assets, Liabilities, and Fund Balances/Net Assets

The following are the City's significant policies regarding recognition and reporting of certain assets, liabilities, and equity.

Pooled Cash and Temporary Investments

Unrestricted and restricted cash balances of both funds are combined to form a pool of cash which is managed by the City Treasurer. Utah State Statutes allow for investments in the Utah Public Treasurer's Investment Fund and Utah Money Management Act (UMMA) approved financial institutions. The UMMA provides for a committee to evaluate financial institutions and provide a list of those qualified as depositories for public funds, including the amount they are authorized to maintain over and above insured amounts. The City Treasurer invests unrestricted and restricted cash with the Utah Public Treasurer's Investment Fund and with local financial institutions. Investments in the pooled cash fund consist primarily of certificates of deposit, repurchase agreements, and time deposits and are carried at cost which approximates market value. Interest income earned as a result of pooling is distributed to the appropriate funds based on month end balances of cash. The City considers all highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

Inventories

No significant inventories are maintained by the City, therefore none are reflected in these statements.

Restricted Assets

Certain resources set aside as reserves in accordance with council resolutions and State statutes are classified as restricted assets on the balance sheet because their use is limited.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Balances/Net Assets (Continued)

Capital Assets

General capital assets are not capitalized in the governmental funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures.

Capital assets are reported in the governmental column in the government-wide financial statements. All purchased fixed assets are valued at cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Capital assets are defined as assets with an initial, individual cost of more than \$5,000.

Infrastructure capital assets which are newly constructed are capitalized.

Depreciation of all exhaustible capital assets is charged as an expense in the related program. Accumulated depreciation is reported on the Statement of Net Assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

| | | | |
|--------------|-------------|----------------|-------------|
| Buildings | 30-50 years | Equipment | 5-10 years |
| Improvements | 10-50 years | Infrastructure | 25-40 years |

Long-term Obligations

In the government-wide statements, long-term debt obligations are reported as liabilities.

The face amount of debt issued is reported as other financing sources in the governmental fund financial statements.

Net Assets/Fund Balances

The difference between assets and liabilities is *net assets* on the government-wide statements, and *fund balance* on the governmental fund statements.

In the governmental fund statements, fund balances are classified as reserved or unreserved. Reserves represent those portions of fund balance that are not available for expenditures or are legally segregated for a specific future use. Unreserved fund balances are available for future appropriation, though some portions may be designated to represent management's tentative plans for specific future uses.

E. Revenues and Expenditures

The following are the City's significant policies related to recognition and reporting of certain revenues, expenditures, and interfund activity.

Revenue Availability

Under the modified accrual basis of accounting, revenues are considered to be "available" when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days after the end of the current year. Grants and similar items are recognized as revenue when all eligibility requirements have been met. All other revenues, including sales taxes, are considered to be available if they are collected within 60 days after year-end.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues and Expenditures (Continued)

Statement of Governmental Accounting Standards (SGAS) No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, defines a non-exchange transaction as one in which "a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange." For property taxes, at January 1 of each year (the assessment date), the City has the legal right to collect the taxes, and in accordance with the provisions of the new statement, has now recorded a receivable and a corresponding deferred revenue for the assessed amount of those property taxes as of January 1, 2005.

Expenditure Recognition

In governmental funds, expenditures are generally recorded when the related liability is incurred. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures, and proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the City generally uses restricted resources first, then unrestricted resources.

F. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for both the General Fund and Capital Projects Fund. All annual appropriations lapse at the fiscal year end. Encumbrance accounting is not used by the City.

Summary of City Budget Procedures and Calendar

1. The City Council can amend the budget to any extent, provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance.
2. Budgets are required by the State of Utah for both the General and Capital Project Funds.
3. Each year the City publishes a separate budget document prepared according to this legal level of control.
4. The City's budget is a Financial Plan of all estimated revenues and all appropriations for expenditures. Revenues and Expenditures must balance for the funds required by the State Code as indicated in item 2 above.
5. A tentative budget is presented by the Mayor to the City Council by the first regularly scheduled council meeting in May. The tentative budget is reviewed and tentatively adopted by the Council no later than June 22.
6. The tentative budget is a public record and is available for inspection at the City offices for at least ten days prior to adoption of the final budget.
7. Notice of public hearing on adoption of the final budget is published seven days prior to the public hearing.
8. The public hearing on the tentatively adopted budget is held no later than June 22. Final adjustments are made to the tentative budget by the Council after the public hearing.
9. Occasionally the City Council will exercise their option to open the budget to indicate additional financing sources that become available.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting (Continued)

Summary of City Budget Procedures and Calendar (Continued)

10. The final budget is adopted by ordinance before June 22 and a copy of the budget certified by the Budget Officer is filed with the State Auditor within thirty days of adoption.

11. In connection with budget adoption:

- a. An annual tax ordinance establishing the property tax rate is adopted before June 22.
- b. The City Treasurer is to certify the property tax rate to the County Auditor before June 22.

12. Budgets for the General and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Summary of Action Required for Budget Changes:

The Council may, by resolution, transfer unexpended appropriations from one department to another department within the same fund. The budget appropriation for any department may be reduced by resolution.

Fund budgets may be increased by resolution after a public hearing.

G. Contributions

Certain proprietary fund types receive contributions for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue.

H. Compensated Absences

City policy provides for vested or accumulated vacation leave. All compensated absences are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts are reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Restrictive Resources

The City's policy is to use restricted resources first to fund appropriations when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

The City's deposits are carried at cost.

At June 30, 2005, the carrying amount of the City's deposits was \$94,337 and the bank balance was \$150,500. Of the bank balance, \$100,000 was covered by federal depository insurance.

B. Investments

At year-end investments consist of funds in the Utah Public Treasurer's Investment Fund. This investment is administered by the State of Utah and is regulated by the Money Management Council under provisions of the Utah State Money Management Act. The investment is not categorized as to credit risk because it does not represent a security that exists in physical or book entry form. Investments are carried at cost which approximates their fair value.

Investments not subject to categorizations:

| | Carrying Amount | Market Value |
|---|--------------------|-----------------|
| Utah Public Treasurer's Investment Fund | \$ 1,729,905 | \$ 1,730,171 |

C. Summary

| | Carrying Amount |
|---|--------------------|
| Deposits | \$ 94,337 |
| Investment in Utah Public Treasurer's Investment Fund | 1,729,905 |
| Total deposits and investments | \$ 1,824,242 |
| Equity in pooled cash and investments | \$ 1,314,357 |
| Restricted cash - storm water | 58,883 |
| Restricted cash - water fund | 202,087 |
| Restricted cash - capital projects | 30,408 |
| Restricted cash - general fund | 160,294 |
| Restricted cash - subdivider guarantee deposits | 58,213 |
| Total deposits and investments | \$ 1,824,242 |

Interest rate risk. The City manages its exposure to declines in fair value by only investing in the Utah Public Treasurers Investment Fund.

Credit risk. As of June 30, 2005, the Utah Public Treasurer's Investment Fund was unrated.

Concentration of credit risk. The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2005, \$50,500 of the \$150,500 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005, was as follows:

| | Balance June 30, 2004 As Restated | Additions | (Deletions) | Balance June 30, 2005 |
|---|---|-------------------|-------------------|--------------------------|
| PRIMARY GOVERNMENT | | | | |
| GOVERNMENTAL ACTIVITIES | | | | |
| Nondepreciated Assets | | | | |
| Land | \$ 862,225 | \$ - | \$ - | \$ 862,225 |
| Water rights | 988 | - | - | 988 |
| Total nondepreciated assets | 863,213 | - | - | 863,213 |
| Depreciated Assets | | | | |
| Vehicles | 517,865 | 68,648 | (85,463) | 501,050 |
| Improvements-nonbuilding | 201,930 | 126,447 | - | 328,377 |
| Machinery and equipment | 78,560 | 8,713 | - | 87,273 |
| Buildings | 876,732 | 7,535 | - | 884,267 |
| Total depreciated assets | 1,675,087 | 211,343 | (85,463) | 1,800,967 |
| Less accumulated depreciation | | | | |
| Vehicles | (366,589) | (36,018) | 82,427 | (320,180) |
| Buildings | (198,253) | (22,288) | - | (220,541) |
| Machinery and equipment | (30,431) | (5,218) | - | (35,649) |
| Improvements | (79,397) | (12,933) | - | (92,330) |
| Total | (674,670) | (76,457) | 82,427 | (668,700) |
| Net assets depreciated | 1,000,417 | 134,886 | (3,036) | 1,132,267 |
| Governmental activities capital assets, net | <u>\$ 1,863,630</u> | <u>\$ 134,886</u> | <u>\$ (3,036)</u> | <u>\$ 1,995,480</u> |
| BUSINESS-TYPE ACTIVITIES | | | | |
| Nondepreciated Assets | | | | |
| Land | \$ 98,783 | \$ - | \$ - | \$ 98,783 |
| Water rights | 16,115 | - | - | 16,115 |
| Work in progress | 231,832 | - | (231,832) | - |
| Total nondepreciated assets | 346,730 | - | (231,832) | 114,898 |
| Depreciated Assets | | | | |
| Improvements-nonbuilding | | | | |
| Water system | 2,821,318 | 848,104 | - | 3,669,422 |
| Sewer system | 769,797 | 1,077,501 | - | 1,847,298 |
| Irrigation water system | - | 297,068 | - | 297,068 |
| Storm water system | - | 541,547 | - | 541,547 |
| Equipment | | | | |
| Water system | 73,593 | - | - | 73,593 |
| Sewer system | 20,396 | - | - | 20,396 |
| Total depreciated assets | 3,685,104 | 2,764,220 | - | 6,449,324 |

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 3 - CAPITAL ASSETS (CONTINUED)

| | Balance June 30, 2004 <u>As Restated</u> | <u>Additions</u> | <u>(Deletions)</u> | Balance June 30, 2005 |
|--|--|---------------------|---------------------|--------------------------|
| BUSINESS-TYPE ACTIVITIES (CONTINUED) | | | | |
| Less accumulated depreciation | | | | |
| Improvements-nonbuilding | | | | |
| Water system | \$ (620,787) | \$ (72,293) | \$ - | \$ (693,080) |
| Sewer system | (264,288) | (35,486) | - | (299,774) |
| Irrigation water system | - | (3,961) | - | (3,961) |
| Storm water system | - | (10,555) | - | (10,555) |
| Equipment | | | | |
| Water system | (42,636) | (5,670) | - | (48,306) |
| Sewer system | (3,628) | (2,580) | - | (6,208) |
| Total | (931,339) | (130,545) | - | (1,061,884) |
| Net assets depreciated | 2,753,765 | 2,633,675 | - | 5,387,440 |
| Business-type activities capital assets, net | <u>\$ 3,100,495</u> | <u>\$ 2,633,675</u> | <u>\$ (231,832)</u> | <u>\$ 5,502,338</u> |

DEPRECIATION EXPENSE

| | <u>Governmental Types</u> | <u>Business Types</u> | <u>Totals</u> |
|--------------------|-------------------------------|---------------------------|-------------------|
| General government | \$ 27,506 | \$ - | \$ 27,506 |
| Parks | 12,933 | - | 12,933 |
| Internal service | 36,018 | - | 36,018 |
| Sewer | - | 38,066 | 38,066 |
| Water | - | 81,924 | 81,924 |
| Storm water | - | 10,555 | 10,555 |
| TOTAL | <u>\$ 76,457</u> | <u>\$ 130,545</u> | <u>\$ 207,002</u> |

NOTE 4 - LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2005, was as follows:

| <u>Description</u> | <u>Interest Rate</u> | <u>Outstanding 6/30/2004</u> | <u>Additions</u> | <u>Payments</u> | <u>Outstanding 6/30/2005</u> | <u>Current Portion</u> |
|----------------------|--------------------------|----------------------------------|------------------|------------------|----------------------------------|----------------------------|
| BUSINESS TYPE | | | | | | |
| Water utility fund: | | | | | | |
| Promissory note - | | | | | | |
| Land purchase | 8.5% | \$ 35,422 | \$ - | \$ 16,989 | \$ 18,433 | \$ 18,433 |
| Revenue obligation | 5.0% | 300,000 | - | - | 300,000 | 15,000 |
| Total water utility | | <u>\$ 335,422</u> | <u>\$ -</u> | <u>\$ 16,989</u> | <u>\$ 318,433</u> | <u>\$ 33,433</u> |

Promissory Note - Municipal Revenue Obligation

On June 15, 2004, the City entered into a loan agreement evidenced by a promissory note in the amount of \$300,000 with interest at the annual rate of 5% simple interest. The proceeds are to be used to fund the Fruit Heights City East Bench Pressure Irrigation Special Improvement District which is the vehicle to construct a pressure irrigation delivery system for some residents in Fruit Heights who will repay their individual assessments for participation in the

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Promissory Note - Municipal Revenue Obligation (Continued)

irrigation system. It is the intent that this obligation is to be a Municipal Revenue Obligation of the specific group of participants/residents of the City and not a General Obligation of the City. The terms are as follows:

Principal balance shall be repaid as it is received by Fruit Heights City in no more than twenty (20) annual payments of \$15,000 beginning October 31, 2005. The note can be prepaid at any time without prepayment penalty. Interest shall be calculated on the outstanding principal balance quarterly and paid annually on July 31 of each year beginning July 31, 2005. Interest shall commence to accrue as of June 15, 2004.

The special assessment was made to residents. The City will collect the payments from the residents and then make the required payments on the promissory note.

Annual requirements to amortize long-term debt as of June 30, 2005 - Revenue Obligation Promissory Note:

| June 30, | Revenue Obligation | | Total |
|----------|--------------------|-------------------|-------------------|
| | Principal | Interest | |
| 2006 | \$ 15,000 | \$ 18,986 | \$ 33,986 |
| 2007 | 15,000 | 11,049 | 26,049 |
| 2008 | 15,000 | 13,753 | 28,753 |
| 2009 | 15,000 | 13,003 | 28,003 |
| 2010 | 15,000 | 12,253 | 27,253 |
| 2011 | 15,000 | 11,503 | 26,503 |
| 2012 | 15,000 | 10,752 | 25,752 |
| 2013 | 15,000 | 10,002 | 25,002 |
| 2014 | 15,000 | 9,253 | 24,253 |
| 2015 | 15,000 | 8,502 | 23,502 |
| 2016 | 15,000 | 7,753 | 22,753 |
| 2017 | 15,000 | 7,002 | 22,002 |
| 2018 | 15,000 | 6,253 | 21,253 |
| 2019 | 15,000 | 5,502 | 20,502 |
| 2020 | 15,000 | 4,753 | 19,753 |
| 2021 | 15,000 | 4,002 | 19,002 |
| 2022 | 15,000 | 3,253 | 18,253 |
| 2023 | 15,000 | 2,502 | 17,502 |
| 2024 | 15,000 | 1,753 | 16,753 |
| 2025 | 15,000 | 1,002 | 16,002 |
| | <u>\$ 300,000</u> | <u>\$ 162,831</u> | <u>\$ 462,831</u> |

Promissory Note - Land Purchase

On August 17, 2001, Fruit Heights City entered into an agreement for the purchase of land for a water storage tank. The terms of the agreement provide for five (5) annual payments of \$20,000 including interest at 8.5%. The balance of this contract at June 30, 2005, was \$18,433.

| June 30, | Land Purchase | | Total |
|----------|---------------|----------|-----------|
| | Principal | Interest | |
| 2006 | \$ 18,433 | \$ 1,567 | \$ 20,000 |

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 5 - LOCAL GOVERNMENT - COST SHARING

Plan Description. Fruit Heights City contributes to the Local Governmental Noncontributory Retirement System and the Public Safety Noncontributory Retirement System for employers with Social Security coverage, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated, 1953, as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes general-purpose financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System, Fruit Heights City is required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Fruit Heights City contributes to the Local Governmental Noncontributory Retirement System. The contributions for June 30, 2005, 2004 and 2003, were \$42,133, \$35,757, and \$29,951, respectively. The contributions were equal to the required contributions for each year.

Fruit Heights City also participates in a defined contribution 401K plan for employees. The contributions were as follows:

| | Employee | Employer |
|------|-----------|-----------|
| 2005 | \$ 23,437 | \$ 19,680 |
| 2004 | \$ 24,725 | \$ 24,718 |
| 2003 | \$ 11,942 | \$ 26,125 |

NOTE 6 - POST-EMPLOYMENT BENEFITS

The only post-employment benefit offered by the City is health insurance for eighteen (18) months following termination. Employees covered and eligible are all employees who were covered by the insurance during employment. The participant is required to pay 100% of the premiums. The City is not required to contribute and therefore incurs no expense.

NOTE 7 - RISK MANAGEMENT

Fruit Heights City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City maintains comprehensive insurance coverage in aggregate amounts sufficient to protect against all reasonably foreseeable liability risks. Specific liability policies purchased include automobile, general liability, property, bond (employee dishonesty), treasurer, public officials and officers, excess liability, and workman's compensation. As of June 30, 2005, there is no anticipation of unpaid claims. Therefore, a liability is not accrued. Settlement amounts have not exceeded coverage for the current year or the three prior years.

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 8 - DEFERRED REVENUE

Deferred revenues are resource inflows that do not yet meet the criteria for revenue recognition. The City follows GASB Statement No.33 which reports property taxes currently receivable to be used in the following fiscal year as deferred revenue.

NOTE 9 - AMOUNT TO BE PROVIDED FOR COMPENSATED ABSENCES

This amount represents the accumulated unpaid vacation and compensatory time which would be paid if employees terminated employment June 30, 2005, and 2004, \$64,117 and \$65,688 respectively.

NOTE 10 - INTER-FUND TRANSFERS

During the year ended June 30, 2005, budgeted interfund operating transfers were as follows:

| | |
|------------------------------|--------------|
| Transfer from General Fund | \$ (6,932) |
| Transfer to Capital Projects | <u>6,932</u> |
| | <u>\$ -</u> |

NOTE 11 - INTERFUND CHARGES FOR SERVICES

During the year ended June 30, 2005, the interfund charges for services were as follows:

Internal Service Fund - vehicle and equipment operating costs charged to:

| | |
|------------------|------------------|
| Water fund | \$ 32,406 |
| Sewer fund | 6,874 |
| Storm water fund | 6,874 |
| General fund | <u>52,046</u> |
| | <u>\$ 98,200</u> |

General Fund charges for services administrative cost share charged to:

| | |
|------------------|------------------|
| Water fund | \$ 17,500 |
| Sewer fund | 17,500 |
| Solid waste fund | 17,500 |
| Storm water fund | <u>17,500</u> |
| | <u>\$ 70,000</u> |

General fund building costs share charged to:

| | |
|------------------|------------------|
| Water fund | \$ 7,500 |
| Sewer fund | 7,500 |
| Solid waste fund | 7,500 |
| Storm water fund | <u>7,500</u> |
| | <u>\$ 30,000</u> |

FRUIT HEIGHTS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 12 - INTEREST EXPENSE

The proprietary funds incurred \$3,011 in interest expense of which \$3,011 was charged to expense and \$-0- was capitalized.

NOTE 13 - RESERVATIONS OF FUND BALANCE/RETAINED EARNINGS

Reserved for Park Impact Fees - This represents park impact fees collected and restricted for park improvements.

Reserved for Water and Storm Water Impact Fees - This represents impact fees collected and restricted for water and storm water improvements.

Reserved for Class "C" Road - This represents the excess of Class "C" Road funds received over the amount spent.

Reserved for Capital Projects - The City is setting aside funds in a reserve for major capital improvements.

Reserved for Emergency Preparedness - This represents required reserve for unexpended amounts from state grants.

Reserved for Special Assessment - This represents amounts assessed to residents for pressurized irrigation system.

NOTE 14 - PROPERTY TAX CALENDAR

| | |
|---|--------------------------------------|
| Lien date | Jan. 1 |
| Taxing entity notifies the county of date, time, and place of public hearing | Mar. 1 |
| Budget officer of the entity prepares and files with the City Council a tentative budget for the next fiscal year | 1st scheduled council meeting in May |
| County auditor sends valuation certified tax rate and levy worksheets to each taxing entity | Jun. 8 |
| Taxing entity must adopt a proposed tax rate, certify the rate and levy, and submit to the county auditor | Before Jun. 22 |
| Taxing entity adopts a final tax rate if there is no increase in certified tax rate | Jun. 22 |
| Taxing entity adopts final budget if there is no increase in certified tax rate | Jun. 22 |
| Copy of the budget is submitted to state auditor within 30 days of adoption | |
| Payment and delinquency date | Nov. 30 |

FRUIT HEIGHTS CITY
REQUIRED SUPPLEMENTAL
INFORMATION

JUNE 30, 2005

FRUIT HEIGHTS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES TO FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

| | <u>Budgeted Amounts</u> | | | <u>Variance</u> |
|----------------------------------|-------------------------|--------------|---------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>Favorable</u> <u>(Unfavorable)</u> |
| <u>Revenues</u> | | | | |
| Taxes: | | | | |
| Property taxes | \$ 297,925 | \$ 297,925 | \$ 295,640 | \$ (2,285) |
| Fees-in-lieu taxes | 55,000 | 55,000 | 64,412 | 9,412 |
| Redemptions | 10,000 | 10,000 | 12,019 | 2,019 |
| Sales tax | 350,000 | 360,000 | 379,267 | 19,267 |
| Total taxes | 712,925 | 722,925 | 751,338 | 28,413 |
| Licenses and permits: | | | | |
| Business licenses and permits | 8,000 | 8,000 | 6,372 | (1,628) |
| Building permits | 50,000 | 100,000 | 103,519 | 3,519 |
| Franchise tax | 30,000 | 30,000 | 31,759 | 1,759 |
| Total licenses and permits | 88,000 | 138,000 | 141,650 | 3,650 |
| Intergovernmental: | | | | |
| Class "C" roads | 150,000 | 150,000 | 124,131 | (25,869) |
| State liquor allotment | 2,000 | 2,000 | 2,135 | 135 |
| State grants | 12,300 | 12,300 | 25,208 | 12,908 |
| Total intergovernmental | 164,300 | 164,300 | 151,474 | (12,826) |
| Charges for services: | | | | |
| Public property rent | 200 | 200 | 453 | 253 |
| Subdivision and engineering fees | 18,000 | 18,000 | 14,478 | (3,522) |
| Inspection fees | 15,000 | 30,000 | 33,273 | 3,273 |
| Building rent | 30,000 | 30,000 | 30,000 | - |
| Administrative services | 70,000 | 70,000 | 70,000 | - |
| Park fees | 800 | 800 | 1,427 | 627 |
| Youth recreation | 32,500 | 32,500 | 30,442 | (2,058) |
| Total charges for services | 166,500 | 181,500 | 180,073 | (1,427) |
| Fines and forfeitures | 68,600 | 68,600 | 73,227 | 4,627 |
| Other revenues: | | | | |
| Sale of assets | 1,000 | 1,000 | 1,120 | 120 |
| Interest earnings | 2,100 | 2,100 | 12,170 | 10,070 |
| Miscellaneous | 500 | 500 | 5,317 | 4,817 |
| Total other revenues | 3,600 | 3,600 | 18,607 | 15,007 |
| Total revenues | 1,203,925 | 1,278,925 | 1,316,369 | 37,444 |

FRUIT HEIGHTS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--------------------------|-------------------------|----------------|----------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| General government: | | | | |
| Mayor and council | \$ 32,003 | \$ 32,400 | \$ 32,334 | \$ 66 |
| Judicial | 58,465 | 65,268 | 62,548 | 2,720 |
| Executive | 117,335 | 100,220 | 95,232 | 4,988 |
| City Treasurer | 52,049 | 72,892 | 66,497 | 6,395 |
| City Recorder | 41,216 | 41,216 | 39,875 | 1,341 |
| Audit | 8,000 | 9,400 | 9,400 | - |
| Attorney | 25,000 | 35,000 | 34,147 | 853 |
| City Hall operations | 14,000 | 14,000 | 13,172 | 828 |
| Non-departmental | 101,300 | 101,300 | 104,446 | (3,146) |
| Vehicle operations | - | 52,497 | 52,046 | 451 |
| Planning and zoning | 30,519 | 40,519 | 36,786 | 3,733 |
| Emergency preparedness | 13,400 | 13,400 | 20,722 | (7,322) |
| Total general government | <u>493,287</u> | <u>578,112</u> | <u>567,205</u> | <u>10,907</u> |
| Public safety: | | | | |
| Law enforcement | 112,800 | 108,800 | 108,468 | 332 |
| Fire protection | 89,600 | 89,600 | 89,522 | 78 |
| Protective inspection | 110,415 | 135,000 | 126,590 | 8,410 |
| Total public safety | <u>312,815</u> | <u>333,400</u> | <u>324,580</u> | <u>8,820</u> |
| Roadways: | | | | |
| Roads | 114,884 | 114,884 | 125,889 | (11,005) |
| Class "C" Roads | 275,500 | 275,500 | 185,093 | 90,407 |
| Total roadways | <u>390,384</u> | <u>390,384</u> | <u>310,982</u> | <u>79,402</u> |

FRUIT HEIGHTS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| <u>Expenditures - Continued</u> | | | | |
| Parks and recreation: | | | | |
| Parks | \$ 126,536 | \$ 115,000 | \$ 95,771 | \$ 19,229 |
| Recreation | 52,043 | 52,043 | 50,629 | 1,414 |
| Total parks and recreation | 178,579 | 167,043 | 146,400 | 20,643 |
| Total expenditures | 1,375,065 | 1,468,939 | 1,349,167 | 119,772 |
| Excess (deficiency) of revenues over expenditures | (171,140) | (190,014) | (32,798) | 157,216 |
| Other financing sources (uses): | | | | |
| Operating transfers (out) | (31,500) | (31,500) | (6,932) | 24,568 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses | (202,640) | (221,514) | (39,730) | 181,784 |
| Fund balance - beginning of year | 375,186 | 375,186 | 375,186 | - |
| Fund balance - end of year | <u>\$ 172,546</u> | <u>\$ 153,672</u> | <u>\$ 335,456</u> | <u>\$ 181,784</u> |

**FRUIT HEIGHTS CITY
AUDITOR'S REPORTS AND
AUDITOR'S MANAGEMENT LETTER**

JUNE 30, 2005

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS

Tarina Chase, CPA

Ann Singleton, CPA

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

To the Honorable Mayor and City Council
Fruit Heights City
Fruit Heights, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fruit Heights City, Utah, for the year ended June 30, 2005, and have issued our report thereon dated October 26, 2005. As part of our audit, we have audited Fruit Heights City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

"C" Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City's financial statements.)

State and Local Assistance (SLA) Program
Utah Citizens Corps Grant

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

| | |
|-------------------------|--|
| Public Debt | Truth in Taxation and Property Tax Limitations |
| Cash Management | Liquor Law Enforcement |
| Purchasing Requirements | Uniform Building Code Standards |
| Budgetary Compliance | Impact Fees |
| "B" & "C" Road Funds | |
| Other Compliance Issues | |

The management of Fruit Heights City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE
PAGE 2

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Fruit Heights City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Davis, Chase & Associates

October 26, 2005

FRUIT HEIGHTS CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-STATE LEGAL COMPLIANCE
YEAR ENDED JUNE 30, 2005

There are no findings or questioned costs for year ended June 30, 2005.

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS

Tarina Chase, CPA

Ann Singleton, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and City Council
Fruit Heights City
Fruit Heights, Utah

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fruit Heights City, Utah, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Fruit Heights City, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fruit Heights City, Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE

Page 2

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over the financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, legislative body, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Davis, Chase & Associates

October 26, 2005

FRUIT HEIGHTS CITY
STATUS OF FISCAL YEAR 2004 FINDINGS
AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2005

1. BUDGETED PROPERTY TAXES

The amount on the Budgeted Revenue column of the Form TC-693 tax rates summary required by the Tax Commission was not the same as the revenue amount in the District's adopted budget.

We recommend that the budgeted property tax amount be amended to be the same amount as on the Form TC-693.

Management Response

The City will amend the budget to correspond with the budgeted revenue amount shown on the Form TC-693 after the certified tax rate is adopted.

Status: Implemented

2. EXCESS OF EXPENDITURES OVER BUDGET BY DEPARTMENT

The City should not incur expenditures in excess of the total appropriation for any department as adopted in the final budget. For the year ended June 30, 2004, the expenditures for General Government exceeded the budget.

We recommend the City review their budget vs. actual expenditures on a regular basis. The City's actual expenditures should not exceed budget appropriations for any department. Budget amendments can be adopted if proper budgetary procedures are followed.

Management Response

The City is aware of these excess expenditures and will monitor the expenditures as compared to the budget and/or budget amendments on a regular basis.

Status: Implemented

3. BUDGETING FOR INTERNAL SERVICE FUND

The Internal Service Fund is used to accumulate the cost and operation of all vehicles and machinery of the City. Each fund is to be charged for its share of these operating costs. In the current year no amounts were budgeted for the General Fund's share of these costs (i.e., park department, road department) as has always been done in the past.

We recommend that the budgeting process include a careful analysis of each fund's share of the Internal Service Fund operating costs and then be charged accordingly so that the charges are enough to cover operating costs, including depreciation.

Management Response

The City will review the allocation of costs in the Internal Service Fund to the various funds and include this analysis in the budgeting process.

Status: Implemented